

**BUTLER COUNTY
SCHOOL DISTRICT**

FINANCIAL STATEMENTS

June 30, 2003

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Butler County School District
Morgantown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Butler County School District** (the "District") as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 of the basic financial statements, the District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting

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Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*, Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 24, 2003 on our consideration of **Butler County School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 13 and 55 through 56 are not a required part of the basic financial statements but are supplementary information required by *Governmental Accounting Standards*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Butler County School District's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional information shown on pages 58

Kentucky State Committee for School District Audits
Members of the Board of Education
Butler County School District

through 66 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Holland CPAs, PSC

Bowling Green, Kentucky
September 24, 2003

Required Supplemental
Information

Management's Discussion
and Analysis



**BUTLER COUNTY SCHOOL DISTRICT
MORGANTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)
YEAR ENDED JUNE 30, 2003**

As management of the Butler County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

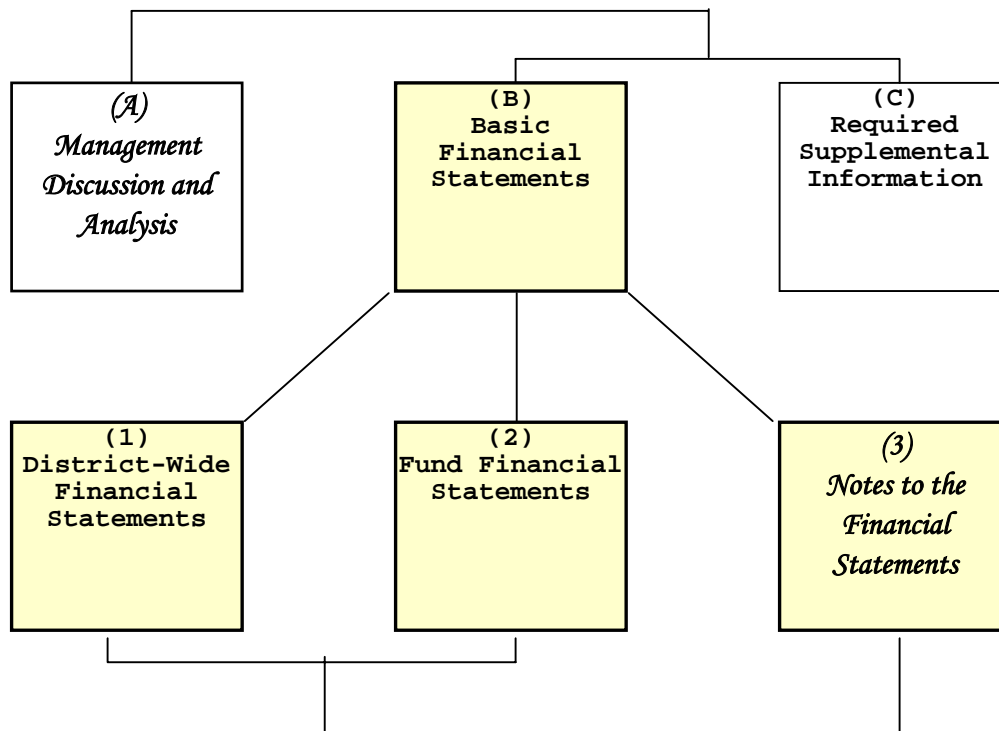
FINANCIAL HIGHLIGHTS

- The beginning General Fund fund balance for the District was \$1,397,335. The ending General Fund fund balance was \$1,389,227.
- The beginning Special Revenue Fund fund balance for the District was \$62,555. The ending Special Revenue Fund fund balance was \$58,537. The beginning balance for Other Governmental Funds was \$59,658. The ending balance for Other Governmental Funds was \$130,875.
- The Annual Financial Report will show the General Fund with a large increase in state revenue due to a change in reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The state's contribution to our employee's health insurance and retirement is included in the district's revenues and expenditure for the first time. The revenue is recorded as "ON BEHALF PAYMENTS". This amount was \$1,972,935. The expenditure of this money is recorded in different functions. Governmental fund revenues and expenditures increased by \$1,859,132 and proprietary fund revenues and expenditures increased by \$113,803.
- The District, in a cost savings move, reduced classified staff at each school and the Central Office at the mid-way point of the fiscal year to offset general fund over-spending in fiscal years 2001 and 2002, of \$358,244 and \$668,045 respectively. Other one-year cost savings plans were implemented as well, which included closely monitoring supplies and utilities, eliminating short-term substitutes and classified overtime. Our efforts were successful resulting in the general fund balance remaining in line, with only an \$8,108 overspending. Long term plans were also implemented to prevent overspending in the general fund, which included a total breakdown of the 2004 fiscal year budget, new teacher to student ratios (resulting in non-renewal of sixteen certified staff), and the continual monitoring of supplies and utilities.
- Also, the District amended their long-range facilities plan to include the closing of one elementary (Third District) at the end of the 2003 fiscal year and the acceptance of urgent needs money from the state to build a new elementary school and to consolidate two elementary schools (Fourth and Fifth District) upon completion. This should have a positive impact on district finances by reducing recurring costs by approximately \$200,000 in the current fiscal year and an additional \$150,000 to \$200,000 upon the consolidation.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Butler County School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis, (B) the basic financial statements, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The Government-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during 2003?” The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky’s SEEK funding formula and its adjustments, the School District’s property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the School District is divided into two distinct kinds of activities:

- Government Activities – Most of the School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District’s food service is reported as business activities. These activities are funded thru fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$11,480,785 as of June 30, 2003.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding (\$10,569,338). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Reporting the School District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds are reported as fiduciary funds. The only proprietary fund is the school food fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Butler County School District are the general fund and special revenue (grants).

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The only proprietary fund is our food service operations.

Fiduciary Funds – The schools' activity funds (or agency funds) is the District's only fiduciary fund. The schools' activity balances at year-end totaled \$148,930.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the period ending June 30, 2003 *

	Governmental Activities	Proprietary Business-Type Activities	Total
Current and Other Assets	\$ 2,280,825	\$ 91,690	\$ 2,372,515
Capital Assets	21,578,991	75,146	21,654,137
Total Assets	\$ 23,859,816	\$ 166,836	\$ 24,026,652
Long Term Liabilities	\$ 11,576,455	\$ 52,885	\$ 11,629,340
Other Liabilities (current)	916,527	0	916,527
Total Liabilities	\$ 12,492,982	\$ 52,885	\$ 12,545,867
Net Assets			
Investment in capital assets (net of debt)	\$ 10,494,192	\$ 75,146	\$ 10,569,338
Restricted	55,151	0	55,151
Unrestricted Fund	817,491	38,805	856,296
Total Net Assets	\$ 11,366,834	\$ 113,951	\$ 11,480,785

* Note: In subsequent years, this chart will compare last year's Net Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

At year-end assets exceeded liabilities by \$11,480,785.

Changes in Net Assets for the period ending June 30, 2003*

	Government Activities	Proprietary Business- Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$19,072	\$314,280	\$333,352
Operating Grants and Contributions	\$2,254,452	\$734,305	\$2,988,757
Capital Grants and Contributions	\$1,031,043		\$1,031,043
General Revenue			
Taxes			
Property Tax	\$1,216,273		\$1,216,273
Motor Vehicle Tax	\$201,020		\$201,020
Utility Tax	\$610,087		\$610,087
Other Tax	\$993		\$993
State Aid	\$9,998,051		\$9,998,051
Investment Earnings	\$59,102	\$119	\$59,221
Other Revenue	\$73,579		\$73,579
Total Revenues			\$16,512,376

- Note: In subsequent years, this chart will compare last year's revenues to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Program Expenses	
Instruction	\$9,977,843
Support Services	
Student Support Services	\$464,824
Instructional Staff Support Services	\$504,316
District Administration	\$434,923
School Administration	\$850,912
Business Administration	\$50,771
Plant Operations & Maintenance	\$1,225,210
Student Transportation	\$999,376
Central Office	\$78,750
Other	\$199,437
Capital Outlay	\$0
Interest on long-term debt	\$592,575
Food Service	\$1,099,662
Total Expenses	\$16,478,599

- Note: In subsequent years, this chart will compare last year's expenses to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

- The District's total revenues were \$16,512,376 and the total expenditures were \$16,478,599. Revenues exceeded expenditures by \$33,777.
- State revenues accounted for 61% and local taxes accounted for 12% of the revenue.
- Instruction was the major expense category and accounted for 61% of the total.
- Food service expenses exceeded revenues by \$50,958.

Financial Analysis of the District Funds

Changes in Fund Balances	End-of-Year	FY 2003	FY 2002	Amount of Change	% Change
General Fund		\$1,389,227	\$1,397,335	(\$8,108)	(.5%)
Special Revenue		\$58,537	\$62,555	(\$4,018)	(6%)
Other Governmental Funds		\$130,875	\$59,658	\$71,217	119%
School Food		\$113,951	\$164,909	(\$50,958)	(31%)
Total		\$1,692,590	\$1,684,457	\$8133	.5%

- The General Fund's fund balance showed a negative change of \$8,108. This was a major improvement over the two previous years and brings the District to a closer breakeven point on the general fund one year ahead of schedule.
- The Special Revenue fund had a negative change of \$4,018. The principal reason for the difference is that in FY 2002 the technology fund was transferred to the special revenue fund. Much of this money was unspent at the end of FY 2002.
- Other Governmental funds show an increase of \$71,217.
- The School Food Fund's fund balance had a \$50,958 decrease due to an increase in salaries (2.7% raise), purchase price of goods sold, and costly repairs due to aging equipment, without an increase in meal prices.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2003, the district had invested \$21,654,137 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total of assets was \$31,051,638 with accumulated depreciation of \$9,397,501. The district sold property from one unused parcel of land (2nd District property). The district also closed another facility (elementary center) and is in the planning stages of building a new elementary center to replace two older ones.

SUMMARY OF CAPITAL ASSETS *

	Governmental Activities	Business-Type Activities	Total
Land & Improvements	\$ 660,317	\$ 0	\$ 660,317
Buildings	20,158,863	0	20,158,863
Equipment and Furniture	759,811	75,146	834,957
Total Assets	\$ 21,578,991	\$ 75,146	\$ 21,654,137

* Note: In subsequent years, this chart will compare last year's Capital Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Long-Term Debt

At year-end the district had \$11.1 million in general obligation bonds outstanding. This was a decrease of 5 % over last year. The decrease was due to the normal payment of bonds during the year.

The district plans to issue bonds next year for approximately \$1 million for the construction of a new elementary school.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for Butler County Schools are to continue to provide modern facilities, ensure student learning, and maintain the average daily attendance count.

Our district facilities plan calls for reducing the number of Elementary centers from four to two. We made an important step at the end of this year by closing one center. We are in the process of building a new center that in essence, replaces two older buildings. The older elementary will be modernized. This modernization has already started to take place with the upgrade of the facility's heating and cooling system along with the facility's electrical system, which has made the facility our most efficient. Continued modernization will take place in the future, which will include new classrooms, a new gym and media center and the improvement of existing restroom facilities, traffic flow, and the existing facility as a whole. Adhering to the facilities plan is essential in providing excellent learning environments for our students.

The second challenge mentioned above is to ensure that all students learn at high level. Maintaining, and improving, student achievement is essential to the future well being of our students and our community. Butler County Schools, in cooperation with parents and community, must ensure that all students demonstrate proficient academic performance, as well as positive social and emotional development and growth.

The third challenge mentioned is preserving the average daily attendance count. The district receives funding through the SEEK formula based on this count. Past history reflects a decrease in enrollment or at best maintaining the previous years count. Therefore, growth within the district is limited. It is vital that our schools have high attendance percentages and that parents and students continue to choose Butler County Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing this district challenge.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information they should be directed to Eric Elms, Director of Financial Services (270) 526-5624, 203 North Tyler St., Morgantown, KY, 42261 or e-mail at eelms@butler.k12.ky.us.

Basic Financial Statements

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2003

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 338,065	\$ 0	\$ 338,065
Investments	1,187,940	0	1,187,940
Accounts receivable	754,820	61,048	815,868
Inventory	0	30,642	30,642
Non-depreciated capital assets	246,006	0	246,006
Depreciable capital assets	30,371,753	433,879	30,805,632
Less: accumulated depreciation	(9,038,768)	(358,733)	(9,397,501)
TOTAL ASSETS	23,859,816	166,836	24,026,652
LIABILITIES			
Bank overdraft	508,939	37,777	546,716
Accounts payable	143,556	15,108	158,664
Accrued liabilities	2,251	0	2,251
Deferred revenue	47,440	0	47,440
Accrued interest	214,341	0	214,341
Long-term obligations:			
Due within one year:			
Outstanding bonds	620,559	0	620,559
Compensated absences	62,353	0	62,353
Due beyond one year:			
Outstanding bonds	10,464,240	0	10,464,240
Compensated absences	429,303	0	429,303
TOTAL LIABILITIES	12,492,982	52,885	12,545,867

See accompanying notes to the financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt . . .	10,494,192	75,146	10,569,338
Restricted for:			
SFCC	1,571	0	1,571
Debt service	53,580	0	53,580
Unrestricted	817,491	38,805	856,296
TOTAL NET ASSETS	\$ 11,366,834	\$ 113,951	\$ 11,480,785

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 9,977,843	\$ 19,072	\$ 1,683,840	\$ 0	\$ (8,274,931)	\$ 0	\$ (8,274,931)	
Support Services:								
Student	464,824	0	154,442	0	(310,382)	0	(310,382)	
Instructional staff	504,316	0	165,826	0	(338,490)	0	(338,490)	
District administration	434,923	0	9,660	0	(425,263)	0	(425,263)	
School administration	850,912	0	3,640	0	(847,272)	0	(847,272)	
Business	50,771	0	0	0	(50,771)	0	(50,771)	
Plant operations and maintenance	1,225,210	0	0	0	(1,225,210)	0	(1,225,210)	
Student transportation	999,376	0	42,538	0	(956,838)	0	(956,838)	
Central office	78,750	0	10,580	0	(68,170)	0	(68,170)	
Other	199,437	0	183,926	0	(15,511)	0	(15,511)	
Facilities acquisition and construction	0	0	0	562,437	562,437	0	562,437	
Interest on long-term debt	592,575	0	0	468,606	(123,969)	0	(123,969)	
TOTAL GOVERNMENTAL ACTIVITIES	15,378,937	19,072	2,254,452	1,031,043	(12,074,370)	0	(12,074,370)	

See accompanying notes to the financial statements.

BUSINESS-TYPE ACTIVITIES

Food services	1,099,662	314,280	734,305	0	0	(51,077)	(51,077)
TOTAL BUSINESS-TYPE ACTIVITIES	1,099,662	314,280	734,305	0	0	(51,077)	(51,077)
TOTAL SCHOOL DISTRICT	<u>\$ 16,478,599</u>	<u>\$ 333,352</u>	<u>\$ 2,988,757</u>	<u>\$ 1,031,043</u>	(12,074,370)	(51,077)	(12,125,447)

GENERAL REVENUES

Taxes:

Property	1,216,273	0	1,216,273
Motor vehicle	201,020	0	201,020
Utilities	610,087	0	610,087
Unmined minerals	993	0	993
State aid	9,998,051	0	9,998,051
Investment earnings	59,102	119	59,221
Other	73,579	0	73,579
TOTAL GENERAL REVENUES	12,159,105	119	12,159,224
CHANGE IN NET ASSETS	84,735	(50,958)	33,777
NET ASSETS – BEGINNING	11,282,099	164,909	11,447,008
NET ASSETS – ENDING	<u>\$ 11,366,834</u>	<u>\$ 113,951</u>	<u>\$ 11,480,785</u>

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash	\$ 173,306	\$ 0	\$ 164,759	\$ 338,065
Investments	1,187,940	0	0	1,187,940
Accounts receivable:				
Accounts	119,670	635,150	0	754,820
TOTAL ASSETS	\$ 1,480,916	\$ 635,150	\$ 164,759	\$ 2,280,825

See accompanying notes to the financial statements.

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Bank overdraft	\$	0	\$	475,055	\$	33,884	\$	508,939
Accounts payable		89,438		54,118		0		143,556
Accrued liabilities		2,251		0		0		2,251
Deferred revenue		0		47,440		0		47,440
TOTAL LIABILITIES		91,689		576,613		33,884		702,186

FUND BALANCES

Reserved for:

SFCC		0		0		1,571		1,571
Site based carryforward		141,786		0		0		141,786
Retirement benefits		60,000		0		0		60,000
Debt service		0		0		53,580		53,580
Unreserved		1,187,441		58,537		75,724		1,321,702
TOTAL FUND BALANCES		1,389,227		58,537		130,875		1,578,639

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 1,480,916	\$ 635,150	\$ 164,759	\$ 2,280,825
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**BUTLER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2003**

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 1,578,639

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds. The cost of the
assets is \$30,617,759, and the accumulated depreciation is \$9,038,768. 21,578,991

Long-term liabilities, including bonds payable, are not due and payable in the
current period and therefore are not reported as liabilities in the funds. Long-term
liabilities at year-end consist of:

Bonds payable	(11,084,799)
Accrued interest of the bonds	(214,341)
Compensated absences	<u>(491,656)</u>

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 11,366,834

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
From local sources:				
Taxes:				
Property	\$ 1,032,280	\$ 0	\$ 183,993	\$ 1,216,273
Motor vehicle	201,020	0	0	201,020
Utilities	610,087	0	0	610,087
Unmined minerals	993	0	0	993
Tuition and fees	19,072	0	0	19,072
Earnings on investments	58,630	472	0	59,102
Other local revenue	77,656	9,315	0	86,971
Intergovernmental – state	9,998,051	977,794	1,030,998	12,006,843
Intergovernmental – federal	0	1,267,387	0	1,267,387
TOTAL REVENUES	11,997,789	2,254,968	1,214,991	15,467,748
EXPENDITURES				
Current:				
Instruction	7,555,547	1,704,401	0	9,259,948
Support services:				
Student	324,736	154,442	0	479,178
Instructional staff	336,971	165,826	0	502,797

See accompanying notes to the financial statements.

District administration	416,326	9,660	0	425,986
School administration	832,165	3,640	0	835,805
Business	50,771	0	0	50,771
Plant operations and maintenance	1,229,688	0	0	1,229,688
Student transportation	866,418	42,538	0	908,956
Central office	68,170	10,580	0	78,750
Other	15,511	183,926	0	199,437
Debt service:				
Principal	0	0	676,631	676,631
Interest	0	0	601,289	601,289
Facilities acquisition and construction	0	0	159,421	159,421
TOTAL EXPENDITURES	11,696,303	2,275,013	1,437,341	15,408,657
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	301,486	(20,045)	(222,350)	59,091
OTHER FINANCING SOURCES (USES)				
Operating transfers	(309,594)	16,027	293,567	0
TOTAL OTHER FINANCING SOURCES (USES)	(309,594)	16,027	293,567	0
NET CHANGE IN FUND BALANCE	(8,108)	(4,018)	71,217	59,091
FUND BALANCE – BEGINNING	1,397,335	62,555	59,658	1,519,548
FUND BALANCE – ENDING	\$ 1,389,227	\$ 58,537	\$ 130,875	\$ 1,578,639

See accompanying notes to the financial statements.

**BUTLER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003**

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$	59,091
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$305,616) is less than depreciation expense (\$939,453) in the period.		(633,837)
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Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The net difference between the proceeds from the sale of assets recorded on the fund statements and the actual gain recognized on the district-wide statements equaled this amount for the year..		(4,077)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		676,631
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Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.		(13,073)
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CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	\$	<u>84,735</u>
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See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003

		ENTERPRISE FUND FOOD SERVICE
ASSETS		
CURRENT ASSETS		
Accounts receivable:		
Accounts	\$ 61,048	
Inventory	30,642	
TOTAL CURRENT ASSETS		91,690
NON-CURRENT ASSETS		
Fixed assets – net		75,146
TOTAL ASSETS	\$ 166,836	
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bank overdraft	\$ 37,777	
Accounts payable	15,108	
TOTAL CURRENT LIABILITIES		52,885
NET ASSETS		
Invested in capital assets, net of related debt		75,146
Unrestricted		38,805
TOTAL NET ASSETS		113,951
TOTAL LIABILITIES AND NET ASSETS	\$ 166,836	

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE
OPERATING REVENUES	
Lunchroom sales	\$ 314,280
TOTAL OPERATING REVENUES	<u>314,280</u>
OPERATING EXPENSES	
Salaries and wages	586,517
Contract services	32,655
Materials and supplies	400,612
Other operating expenses	55,222
Depreciation expense	24,656
TOTAL OPERATING EXPENSES	<u>1,099,662</u>
OPERATING LOSS	<u>(785,382)</u>
NON-OPERATING REVENUES (EXPENSES)	
State operating grants	128,050
Federal operating grants	533,000
Donated commodities	73,255
Interest revenue	119
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>734,424</u>
CHANGE IN NET ASSETS	<u>(50,958)</u>
TOTAL NET ASSETS – BEGINNING, AS ORIGINALLY STATED	152,822
PRIOR PERIOD ADJUSTMENT	<u>12,087</u>
TOTAL NET ASSETS – BEGINNING, AS RESTATED	<u>164,909</u>
TOTAL NET ASSETS – ENDING	<u><u>\$ 113,951</u></u>

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 311,624
Cash payments to employees for services	(586,516)
Cash payments for contract services	(32,655)
Cash payments to suppliers for goods and services	(322,964)
Cash payments in other operating expenses	(55,223)
NET CASH USED IN OPERATING ACTIVITIES	(685,734)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating grants received	637,312
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	637,312
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	119
NET CASH PROVIDED BY INVESTING ACTIVITIES	119
NET DECREASE IN CASH AND CASH EQUIVALENTS	(48,303)
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	10,526
CASH AND CASH EQUIVALENTS – END OF THE YEAR	\$ (37,777)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (785,382)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	24,656
Commodities used	73,255
Changes in assets and liabilities:	
Receivables	(2,656)
Inventories	(378)
Accounts payable	4,771
NET CASH USED IN OPERATING ACTIVITIES	\$ (685,734)

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

	<u>AGENCY FUNDS</u>
ASSETS	
ASSETS	
Cash	\$ 148,930
TOTAL ASSETS	<u><u>\$ 148,930</u></u>
LIABILITIES	
LIABILITIES	
Due to student groups	\$ 148,930
TOTAL LIABILITIES	<u><u>\$ 148,930</u></u>

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Butler County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Butler County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Butler County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Butler County School District Finance Corporation — The Butler County Board of Education resolved to authorize the establishment of the Butler County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Butler County Board of Education also comprise the Corporation's Board of Directors.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

• **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, as required by Kentucky law.

• **Proprietary Fund Types**

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

• **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District as an agent on behalf of others.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Cash and Cash Equivalents**

The District considers demand deposits, money market funds and other highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

● **Investments**

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

● **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE**

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (GASB 34). Statement No. 34 makes significant change in financial reporting. Subsequent to the issuance of GASB 34, GASB issued the following standards to be implemented at the same time GASB 34 is adopted; Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The District has implemented these standards effective July 1, 2002.

Statement No. 34, among other changes, adds two new "Government-Wide" (District-Wide) financial statements as basic financial statements required for all governmental units. The Statement of Net assets and the Statement of Activities are the two new required statements. Both statements are prepared on the full accrual basis. The government-wide financial statements split the District's programs between business-type and governmental activities. Previously, in accordance with accounting standards for governmental units, the District used the modified accrual basis of accounting for certain funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity fund financial statements.

In addition, all funds are reported as governmental, proprietary or fiduciary funds. The definitions for these types of activities are discussed in other portions of Note 1.

Finally, all non-fiduciary funds are further classified as major or non-major funds. In reporting financial condition and results of operations for governmental units, the new standard concentrates on major funds versus non-major funds.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE (Continued)**

The restatement of the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Other Governmental</u>	<u>Total</u>
Fund equity, June 30, 2002	\$ 1,397,335	\$ 62,255	\$ 59,658	\$ 1,519,548
GASB 34 adjustments:				
Capital assets, net of depreciation				22,216,905
Long-term liabilities				(11,761,430)
Accrued compensated absences . .				(469,869)
Accrued interest payable				(223,055)
				<u><u>\$ 11,282,099</u></u>

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE (Continued)**

The District had a fixed asset inventory taken to comply with GASB 34. This inventory revealed a difference in the proprietary fixed assets that was previously recorded. Changes as a result of the GASB 34 implementation are as follows:

	<u>School Food Service</u>
Fund equity, June 30, 2002	\$ 152,822
Additional capital assets	<u>12,087</u>
Adjusted Fund Equity, June 30, 2002	<u>\$ 164,909</u>

NOTE 3: CASH AND INVESTMENTS

● **Deposits**

At June 30, 2003, the carrying amounts of the District's demand and time deposits were \$1,218,219 and the bank balances was \$2,623,236, which was covered by federal depository insurance or by collateral held by the banks in the District's name.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 3: CASH AND INVESTMENTS (Continued)

The carrying amounts (including bank overdrafts) are reflected in the financial statements as follows:

Governmental funds	\$ 1,017,066
Proprietary funds	(37,777)
Fiduciary funds	<u>148,930</u>
	<u><u>\$ 1,128,219</u></u>

● **Investments**

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds.

The District's investments are categorized as either (1) insured or registered or for which the securities are held by the government or its agent in the District's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the District's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

	Categories			Reported Value
	1	2	3	
Certificates of Deposit	\$ 1,187,940	\$ 0	\$ 0	\$ 1,187,940
	<u><u>\$ 1,187,940</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,187,940</u></u>

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 247,631	\$ 0	\$ 1,625	\$ 246,006
Construction in progress	0	159,421	159,421	0
Total Nondepreciable Historical Cost	247,631	159,421	161,046	246,006
Capital assets that are depreciated:				
Land improvements	692,197	0	0	692,197
Buildings and improvements	25,245,873	171,621	0	25,417,494
Technology equipment	1,866,184	120,544	100,379	1,886,349
Vehicles	1,771,508	0	0	1,771,508
General	602,371	13,451	11,617	604,205
Total Depreciable Historical Cost	30,178,133	305,616	111,996	30,371,753

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 4: CAPITAL ASSETS (Continued)

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Less accumulated depreciation for:				
Land improvements	244,026	33,860	0	277,886
Buildings and improvements	4,637,884	620,747	0	5,258,631
Technology equipment	1,647,752	150,982	100,379	1,698,355
Vehicles	1,386,527	88,627	0	1,475,154
General	292,670	45,237	9,165	328,742
Total Accumulated Depreciation	8,208,859	939,453	109,544	9,038,768
Total Depreciable Historical Cost, Net	21,969,274	(633,837)	2,452	21,332,985
Governmental Activities, Capital Assets, Net	\$ 22,216,905	\$ (474,416)	\$ 163,498	\$ 21,578,991
Business-Type Activities:				
General	\$ 434,435	\$ 0	\$ 556	\$ 433,879
Less accumulated depreciation	334,633	24,656	556	358,733
Business-Type Activities, Capital Assets, Net	\$ 99,802	\$ (24,656)	\$ 0	\$ 75,146

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 809,600
Student	4,387
Instructional staff	1,519
District administration	10,699
School administration	15,107
Facilities operations	7,722
Student transportation	90,419
Total Depreciation Expense	\$ 939,453

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: GENERAL LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1990	\$ 3,620,000	6.10%—7.20%
1991	3,455,000	5.20%—7.00%
1992	270,000	3.25%—6.35%
1996	2,510,000	3.80%—4.90%
1996-B	4,460,000	5.50%—5.55%
1998	2,220,000	4.10%—4.60%
2000	2,510,000	4.85%—5.60%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Butler County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: GENERAL LONG-TERM OBLIGATIONS
(Continued)

Year	Butler County School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2003—2004	\$ 397,888	\$ 320,936	\$ 168,687	\$ 299,623	\$ 1,187,134
2004—2005	383,777	328,399	155,093	313,207	1,180,476
2005—2006	369,001	340,214	140,559	327,857	1,177,631
2006—2007	353,712	358,486	125,298	340,841	1,178,337
2007—2008	337,199	378,098	109,156	357,903	1,182,356
2008—2009	319,743	391,351	92,184	376,115	1,179,393
2009—2010	301,163	399,664	73,508	392,988	1,167,323
2010—2011	277,650	425,364	53,736	223,753	980,503
2011—2012	250,084	429,425	42,238	110,575	832,322
2012—2013	225,399	464,091	35,984	90,909	816,383
2013—2014	199,065	485,030	30,867	94,970	809,932
2014—2015	171,463	509,653	25,490	100,347	806,953
2015—2016	142,366	538,973	19,809	106,027	807,175
2016—2017	111,509	572,982	14,325	92,018	790,834
2017—2018	84,627	392,175	10,280	52,825	539,907
2018—2019	62,050	414,132	7,236	55,868	539,286
2019—2020	38,249	435,913	4,018	59,087	537,267
2020—2021	13,022	462,989	1,182	42,011	519,204
	<u>\$ 4,037,967</u>	<u>\$ 7,647,875</u>	<u>\$ 1,109,650</u>	<u>\$ 3,436,924</u>	<u>\$ 16,232,416</u>

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: GENERAL LONG-TERM OBLIGATIONS
(Continued)

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Balance			Amounts Due	
	July 1, 2002	Increases	Decreases	June 30, 2003	Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation debt	\$ 11,761,430	\$ 0	\$ 676,631	\$ 11,084,799	\$ 620,559
Total Bonds and Notes Payable	11,761,430	0	676,631	11,084,799	620,559
Other Liabilities:					
Compensated absences	469,869	132,203	110,416	491,656	62,353
Total Other Liabilities	469,869	132,203	110,416	491,656	62,353
Total Long-Term Liabilities	\$ 12,340,754	\$ 132,203	\$ 896,502	\$ 11,576,455	\$ 682,912

NOTE 6: PENSION PLANS

Plan Descriptions. The Butler County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: PENSION PLANS (Continued)

supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Funding Policy. KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 6.34% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2003, 2002 and 2001 were \$135,646, \$144,285 and \$154,589, respectively, equal to the required contributions for each year.

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2003 was \$1,859,132 for governmental funds and \$113,803 for proprietary funds.

NOTE 7: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 8: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 10: EXCESS EXPENDITURES OVER
APPROPRIATIONS**

The District's FSPK fund had a deficit fund balance of \$33,884 at June 30, 2003. In addition, the following funds had excess current year expenditures over current year appropriated revenues:

<u>Fund</u>	<u>Amount</u>
General	\$ 8,108
Special Revenue	4,018
FSPK	39,213
Food Service	50,958

NOTE 11: FUND TRANSFERS

Fund transfers for the year ended June 30, 2003 consist of the following:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Construction	Construction	\$ 159,421
General	Special Revenue	Matching	16,027
General	Debt Service	Debt Service	134,146
SEEK	Debt Service	Debt Service	93,690
FSPK	Debt Service	Debt Service	585,259

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 12: SUBSEQUENT EVENTS

The District has entered into an agreement to combine the 4th and 5th District elementary schools into one new school. Financing for the new school will be provided through bond issues and state funding.

Required Supplemental
Information

BUTLER COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2003

	BUDGETED AMOUNTS		ACTUAL (GAAP BASIS)	VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 1,835,440	\$ 2,049,422	\$ 1,998,430	\$ (50,992)
State programs	7,984,031	8,037,111	9,998,051	1,960,940
Federal programs	3,640	3,381	1,308	(2,073)
TOTAL REVENUES	9,823,111	10,089,914	11,997,789	1,907,875
EXPENDITURES				
Current:				
Instruction	6,390,115	6,535,441	7,555,547	(1,020,106)
Support services:				
Student	269,008	240,248	324,736	(84,488)
Instructional staff	335,265	324,902	336,971	(12,069)
District administration	1,283,098	478,775	416,326	62,449
School administration	686,958	673,169	832,165	(158,996)
Business	42,938	33,340	50,771	(17,431)
Plant operations and maintenance	1,324,850	1,364,659	1,229,688	134,971
Student transportation	987,976	1,025,280	866,418	158,862
Central office	53,050	52,443	68,170	(15,727)
Other	5,515	17,178	15,511	1,667
TOTAL EXPENDITURES	11,378,773	10,745,435	11,696,303	(950,868)

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,555,662)	(655,521)	301,486	957,007
OTHER FINANCING SOURCES (USES)				
Operating transfers	(187,570)	(285,073)	(309,594)	(24,521)
TOTAL OTHER FINANCING SOURCES (USES)	(187,570)	(285,073)	(309,594)	(24,521)
NET CHANGE IN FUND BALANCE	(1,743,232)	(940,594)	(8,108)	932,486
FUND BALANCES – BEGINNING	1,397,335	1,397,335	1,397,335	0
FUND BALANCES – ENDING	<u>\$ (345,897)</u>	<u>\$ 456,741</u>	<u>\$ 1,389,227</u>	<u>\$ 932,486</u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

 Actual amounts (budgetary basis) \$ 10,138,657

Differences — budget to GAAP:

 On-behalf payments recorded under GAAP basis not included in budget amounts 1,859,132

**Total Revenues as Reported on Statement of Revenues, Expenditures and Changes
in Fund Balances — Governmental Funds**

\$ 11,997,789

Outflows/expenses:

 Actual amounts (budgetary basis) \$ 9,837,171

Differences — budget to GAAP:

 On-behalf payments recorded under GAAP basis not included in budget amounts 1,859,132

**Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes
in Fund Balances — Governmental Funds**

\$ 11,696,303

SUPPLEMENTAL INFORMATION

BUTLER COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2003

	SEEK FUND	FSPK FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS					
Cash	\$ 111,179	\$ 0	\$ 0	\$ 53,580	\$ 164,759
TOTAL ASSETS	\$ 111,179	\$ 0	\$ 0	\$ 53,580	\$ 164,759
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Bank overdraft	\$ 0	\$ 33,884	\$ 0	\$ 0	\$ 33,884
TOTAL LIABILITIES	0	33,884	0	0	33,884
FUND BALANCES					
Reserved for:					
SFCC	1,343	228	0	0	1,571
Debt service	0	0	0	53,580	53,580
Unreserved	109,836	(34,112)	0	0	75,724
TOTAL FUND BALANCES	111,179	(33,884)	0	0	130,875
TOTAL LIABILITIES AND FUND BALANCES	\$ 111,179	\$ 0	\$ 0	\$ 53,580	\$ 164,759

BUTLER COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	SEEK FUND	FSPK FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES					
From local sources:					
Taxes:					
Property	\$ 0	\$ 183,993	\$ 0	\$ 0	\$ 183,993
Intergovernmental — state	200,339	362,053	0	468,606	1,030,998
TOTAL REVENUES	200,339	546,046	0	468,606	1,214,991
EXPENDITURES					
Debt service:					
Principal	0	0	0	676,631	676,631
Interest	0	0	0	601,289	601,289
Facilities acquisition and construction	0	0	159,421	0	159,421
TOTAL EXPENDITURES	0	0	159,421	1,277,920	1,437,341
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	200,339	546,046	(159,421)	(809,314)	(222,350)
OTHER FINANCING SOURCES (USES)					
Operating transfers	(93,690)	(585,259)	159,421	813,095	293,567
TOTAL OTHER FINANCING SOURCES (USES)	(93,690)	(585,259)	159,421	813,095	293,567

NET CHANGE IN FUND BALANCE	106,649	(39,213)	0	3,781	71,217
FUND BALANCES, JULY 1, 2002	<u>4,530</u>	<u>5,329</u>	<u>0</u>	<u>49,799</u>	<u>59,658</u>
FUND BALANCES, JUNE 30, 2003	<u><u>\$ 111,179</u></u>	<u><u>\$ (33,884)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 53,580</u></u>	<u><u>\$ 130,875</u></u>

BUTLER COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL SCHOOL ACTIVITY FUNDS
ALL AGENCY FUNDS
As of and for the Year Ended June 30, 2003

	CASH JULY 1, 2002	ADDITIONS	DEDUCTIONS	CASH JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
Butler County High School	\$ 42,317	\$ 321,055	\$ 294,360	\$ 69,012	\$ 0	\$ 0	\$ 69,012
Butler County Middle School	22,268	121,131	127,507	15,892	0	0	15,892
Morgantown Elementary School	26,513	41,057	39,008	28,562	0	0	28,562
3rd District Elementary School	18,998	10,966	13,642	16,322	0	0	16,322
4th District Elementary School	7,807	8,140	8,781	7,166	0	0	7,166
5th District Elementary School	9,814	28,438	26,276	11,976	0	0	11,976
	<u>\$ 127,717</u>	<u>\$ 530,787</u>	<u>\$ 509,574</u>	<u>\$ 148,930</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 148,930</u>

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
BUTLER COUNTY HIGH SCHOOL
June 30, 2003

	CASH JUNE 30, 2003	DUE TO STUDENT GROUPS JUNE 30, 2003
General	\$ 6,435	\$ 6,435
School Concessions	8,814	8,814
Faculty Fund	834	834
ROTC	1,271	1,271
Cheerleaders	2,056	2,056
Tree Scape Fund	479	479
Europe	1,000	1,000
Rocketry	159	159
Athletics	1,361	1,361
Football Jr. Pro	2,274	2,274
Boys BK Jr. Pro	1,526	1,526
Girls BK Jr. Pro	1,296	1,296
Band	320	320
Chorus	224	224
Technology	246	246
Library Supplies	28	28
FCS	4,582	4,582
Business & Office	723	723
Yearbook	9,760	9,760
Class of 2004	2,864	2,864
Class of 2005	121	121
FFA	400	400
FCCLA	3,946	3,946
Beta Club	3,412	3,412
SUPA	726	726
NAC	575	575
Foreign Language	158	158

	CASH JUNE 30, 2003	DUE TO STUDENT GROUPS JUNE 30, 2003
TSA	784	784
PRIDE	438	438
FBLA	68	68
Pep Club	15	15
Hosa	357	357
Student Council	768	768
Auditorium	3,680	3,680
Project Prom	7,312	7,312
TOTAL	\$ 69,012	\$ 69,012

BUTLER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	MUNIS NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	—	\$ 128,687
National School Lunch Program	10.555	—	367,377
Passed-Through State Department of Agriculture:			
Commodities	10.555	—	73,255
Summer Feeding Program	10.559	—	36,936
TOTAL U.S. DEPARTMENT OF AGRICULTURE			606,255
U.S. DEPARTMENT OF DEFENSE			
Received Direct From Defense Finance and Accounting Service:			
NJROTC	12.000	5042	33,348
TOTAL U.S. DEPARTMENT OF DEFENSE			33,348
U.S. DEPARTMENT OF EDUCATION			
Passed-Through State Department of Education:			
Title I — 2003	84.010	3103	501,018
Title I — 2002	84.010	3102	26,652
Migrant Education Basic — 2003	84.011	3113	13,379
Migrant Education Basic — 2002	84.011	3112	1,177
Title VI — Innovative Education — 2002	84.298A	3312	854
Title II — Dwight D. Eisenhower PD — 2002	84.281A	4042	1,732
IDEA-B Basic Special Education — 2002	84.027	3373	335,152
IDEA-B Preschool — 2002	84.173	3433	30,994
Title VI — Class Size Reduction Program — 2002	84.340	3882	1,299
Title IV — Safe & Drug Free Schools — 2002	84.186A	4062	1,518

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	MUNIS NUMBER	FEDERAL EXPENDITURES
Title IV — Safe & Drug Free Schools — 2003	84.186A	4063	9,383
Service Learning Grant — 2002	94.004	6753	3,500
Vocational Education — Title II C Perkins	84.048	3482A	628
Vocational Education — Basic — 2002	84.048	3482	6
Vocational Education — Basic — 2003	84.048	3483	27,994
Title V	84.173	3343	16,748
Rural and Low Income School Program	84.358	3503	42,770
Improving Teacher Quality	84.367	4013	151,420
Title II NCLB Part D	84.318X	4253C	14,232
Passed-Through State Department for Social Services:			
Title I Neglected & Delinquent	84.013	3133	13,611
Passed-Through State Workforce Cabinet:			
Community Based Work Transition — 2002	84.126A	3713	11,445
Adult Education Corrections	84.002	3803	1,420
Adult Education Development Funds	84.002	3653	8,851
Adult Education — Federal Basic	84.002	3733	16,536
Adult Education — Professional Development	84.002	3733S	650
Adult Education — Basic — 2002	84.002	3722	1,071
TOTAL U.S. DEPARTMENT OF EDUCATION			1,234,040
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,873,643

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Butler County School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

BUTLER COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2003

None.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Butler County School District
Morgantown, Kentucky

We have audited the financial statements of **Butler County School District** (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated August 22, 2003 as modified by generally accepted accounting principle departures. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditors' Contract—State Audit Requirements*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting which we have reported to management in a separate letter dated September 24, 2003.

This report is intended solely for the information and use of the members of the Board, Kentucky State Committee for School District Audits, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
September 24, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Butler County School District
Morgantown, Kentucky

● **Compliance**

We have audited the compliance of ***Butler County School District*** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III

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of the *Independent Auditors' Contract—Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

● **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Board of Education
Butler County School District

This report is intended solely for the information and use of the members of the Board, Kentucky State Committee for School District Audits, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
September 24, 2003

BUTLER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2003

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

BUTLER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2003

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555 / 10.559	Child Nutrition Cluster
84.010	Title I
84.027	IDEA B — Basic
84.173	IDEA B — Preschool

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

SECTION II — FINANCIAL STATEMENT FINDINGS

Summary:

None.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Summary:

No findings or questioned costs resulted from these items.



Kentucky State Committee for School District Audits
Members of the Board of Education
Butler County School District
Morgantown, Kentucky

In planning and performing our audit of the financial statements of **Butler County School District** (the "District") for the year ended June 30, 2003, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Comments from the prior year that have not been corrected will be listed in this letter. A separate report dated September 24, 2003 contains our report on the District's internal control. This letter does not affect our report dated September 24, 2003 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Holland CPAs, PSC

Bowling Green, Kentucky
September 24, 2003

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BUTLER COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2003

● **Butler County High School**

- T During our review of the Annual Financial Report, it was noted that the balance of the certificates of deposit did not match what was reported. This was due to interest not being recorded. We recommend that interest be recorded so the Annual Financial Report (AFR) will reflect the true balance.
- T During our review of disbursements, we noted the receipt of merchandise was not documented. We recommend the person receiving the merchandise document the quantity and date of receipt on the invoice, packing slip or purchase order. This will help ensure the treasurer properly pays for only the amounts received.

● **Butler County Middle School**

- T During our review of disbursements, it came to our attention the person/sponsor requesting a purchase did not sign the purchase request. We recommend the person/sponsor requesting the purchase sign the purchase request.
- T During our review of disbursements, we noted the receipt of merchandise was not documented. We recommend the person receiving the merchandise document the quantity and date of receipt on the invoice, packing slip or purchase order. This will help ensure the treasurer properly pays for only the amounts received.

● **Third District Elementary School**

- T During our review of disbursements, it came to our attention the person/sponsor requesting a purchase did not sign the purchase request. We recommend the person/sponsor requesting the purchase sign the purchase request.
- T During our review of disbursements, we noted the receipt of merchandise was not documented. We recommend the person receiving the merchandise document the quantity and date of receipt on the invoice, packing slip or purchase order. This will help ensure the treasurer properly pays for only the amounts received.
- T During our review of the Annual Financial Report (AFR), it was noted the certificates of deposit were not included in the activity funds. All cash and investments should be reported in the activity funds.

BUTLER COUNTY SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

● **Fourth District Elementary School**

- T During our review of disbursements, it came to our attention the person/sponsor requesting a purchase did not sign the purchase request. We recommend the person/sponsor requesting the purchase sign the purchase request.

● **Morgantown Elementary School**

- T During our review of disbursements, it came to our attention the person/sponsor requesting a purchase did not sign the purchase request. We recommend the person/sponsor requesting the purchase sign the purchase request

**BUTLER COUNTY BOARD OF EDUCATION
RESPONSE TO AUDITOR COMMENTS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

BUTLER COUNTY HIGH SCHOOL:

Comment: During our review of the Annual Financial Report, it was noted that the balance of the certificates of deposit did not match what was reported.

Response: The journal entry has already been made which corrects this problem.

Comment: During our review of disbursements, we noted the receipt on merchandise was not documented.

Response: As recommended the person receiving the merchandise will document the quantity and date of receipt on the invoice.

BUTLER COUNTY MIDDLE SCHOOL:

Comment: During our review of disbursements, it came to our attention the person/sponsor requesting a purchase did not sign the purchase request.

Response: As recommended the person/sponsor requesting the purchase will sign the purchase request.

Comment: During our review of disbursements, we noted the receipt on merchandise was not documented.

Response: As recommended the person receiving the merchandise will document the quantity and date of receipt on the invoice.

MORGANTOWN ELEMENTARY SCHOOL:

Comment: During our review of disbursements, it came to our attention the person/sponsor requesting a purchase did not sign the purchase request.

Response: As recommended the person/sponsor requesting the purchase will sign the purchase request.

THIRD DISTRICT ELEMENTARY SCHOOL:

Although the auditors recommendations are noted, since Third District Elementary School was closed at the end of the fiscal year no actions have to be taken.

FOURTH DISTRICT ELEMENTARY SCHOOL:

Comment: During our review of disbursements, it came to our attention the person/sponsor requesting a purchase did not sign the purchase request.

Response: As recommended the person/sponsor requesting the purchase will sign the purchase request.

Eric Elms
Finance Officer



Kentucky State Committee for School District Audits
Members of the Board of Education
Butler County School District
Morgantown, Kentucky

We have audited the financial statements of ***Butler County School District*** (the "District") for the year ended June 30, 2003, and have issued our report thereon dated September 24, 2003. Professional standards require that we provide you with the following information related to our audit.

- **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, OMB Circular A-133 and Procedures for Auditing Local School Districts' Fiscal Records**

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

- **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in *Note 1* to the financial statements. As described in *Note 2* to the financial statements, the District changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34 as of July 1, 2002. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you or transactions for which there is a lack of authoritative guidance or consensus.

- **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

- **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Our proposed audit adjustments, that were in our judgment either individually or in the aggregate, which had a significant effect on the District's financial reporting process were recorded by the District. We would be glad to discuss the nature of these adjustments with you.

- **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

- **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

- **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management of ***Butler County School District*** and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC